

Fresno Madera Policy Manual

SECTION

SUBJECT

BoardBoard Composition, Qualifications, and Self-Evaluation Policy

APPROVED BY: Board of Directors**APPROVAL DATE:** July 25, 2006**REVISION DATES:** January 23, 2007, February 26, 2008, June 25, 2008, January 22, 2009, February 22, 2011**REFERENCE:** Farm Credit Act : 2.1, 2.11

FCA Regulations: 611.210, 611.220 (1), 611.310, 611.325

FMFC Bylaws: Article III, Section 340.3, Article IV, Section 400

FMFC Policies: Board Training Policy

Other: FCA Publication titled “Financial Expert Determination – Section 611.210(a)(2)”, FCA New Guidance on Board Self Evaluation dated September 5, 2008 incorporated in FAQs About Governance Changes 2006

I. PHILOSOPHY

The Association Board of Directors (Board) wishes to assure that well-qualified board members are elected and appointed to the Board and to strengthen the collective knowledge of the board.

A well-qualified board is essential in their responsibility for providing CEO oversight, planning, and policy direction, in addition to carrying out their fiduciary responsibilities to stockholders.

Additionally, the Board, shall endeavor to represent all geographical sections and as nearly possible, all types of agricultural production within the Association’s territory with special regard for commodity concentrations.

Finally, the Board wishes to enhance the Board’s overall effectiveness through a self-evaluation process.

II. PURPOSE AND OBJECTIVES

The purpose of this policy is to identify board composition, director eligibility, and desirable director qualifications in compliance with FCA Regulations and Association Bylaws, while also implementing a board self evaluation process in compliance with FCA Regulations. This policy will be provided to the stockholder’s Nominating Committee with the objective of enhancing the selection of director candidates.

III. SCOPE

This policy applies to the Association Board of Directors (Board), elected and appointed members.

IV. AUTHORITY

Retained. The Association Board of Directors (Board) retains the authority change or rescind this policy.

Fresno Madera Policy Manual**V. POLICY STATEMENTS****A. Board Self-Evaluation**

1. As per FCA Regulations, a board self evaluation will be conducted annually in conjunction with the Association's 3-year operational and strategic business plan.
 - The strategic business plan will assess board needs based on a review of the Board's self-evaluation.
2. The goal of the Board self-evaluation is to assess the Board's performance and enhance the Board's overall effectiveness. To add value to the strategic planning process and to achieve effectiveness, the self-evaluation should include and identify the following components:
 - Board Strengths
 - Board Weaknesses
 - Plan to Address Identified Weaknesses

The evaluation is a useful planning tool for training, and identifying desirable director qualifications. The results of the evaluation will be utilized for developing the Annual Training Plan in accordance with the Board's Training Policy.

3. It will be at the Board's discretion and authority to determine the manner in which the Board self-evaluation will be conducted. Association resources will be provided as needed to facilitate this process in the manner directed by the Board.
4. If requested, a summary of the evaluation must be provided to the Nominating Committee.

B. Board Composition

1. The Association shall have an elected Board of 8 directors who will be elected by the Voting Stockholders. Additionally, the Board will contain no fewer than two (2) Board appointed directors.
 - Stockholder-elected directors must comprise at least 80 percent of the members of the board.
2. The board shall endeavor to represent all geographical sections of the Association territory and, as nearly possible, all types of agricultural production within the Association's territory with special regard for commodity concentrations.

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3. To ensure uniform area representation of the 8 elected directors, a minimum of 5 directors will either reside or have their principal place of business located in Fresno County and a minimum of 2 directors will either reside or have their principal place of business located in Madera County.
4. Ideally, the board will be comprised of four (4) members with commercial loans and four (4) members with mortgage loans. A candidate that is a joint borrower (commercial and mortgage loans) is eligible for either a commercial or mortgage designated director position. Incumbent directors whose subsidiary loan to either the PCA or FLCA has been paid and have active borrowings with the other subsidiary and who own ACA stock shall remain eligible for re-election. Ownership of ACA stock is the determinant for nomination of incumbent directors. The nominating committee is charged with the responsibility to select candidates for election so that the balance of four (4) members with commercial loans and four (4) members with mortgage loans is maintained.

C. Director EligibilityElected Directors

1. No person shall be an elected director or continue to serve as such unless he or she is a holder of voting stock as described in Section 720.3 of the Association bylaws, is in compliance with the Regulations, is a bona fide farmer, rancher, or producer or harvester of aquatic products and either resides or farms in the Association's territory.
2. An individual designated to vote the stock of a corporation or partnership may be an elected director as long as that individual holds stock in the corporation, is a member of the partnership, and meets all other requirements for serving as an elected director of the Association.
3. An individual who is a FCB director or a salaried officer or employee of the Association or any other organization within the Farm Credit System is not eligible to be elected or appointed and may not serve as a director.
4. An individual may not be a director of the Association and a director of another farm credit association simultaneously (other than a director of Fresno Madera Farm Credit subsidiaries).
5. A former salaried officer or employee of any Association or any other organization within the Farm Credit System is not eligible to be elected or appointed as a director within one year after ceasing to be employed by the Association or any other organization within the Farm Credit System.
6. A legally authorized representative of a deceased or incompetent member is not eligible to be elected or appointed as a director unless such representative also holds voting stock in his or her own right.

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7. No individual shall become or continue as an elected or appointed director if the individual is a director, officer, employee or agent of any other non-System financial institution which is authorized to make the same types of loans that are available through this Association. It is at the FMFC Board's discretion to determine that (a) there is no conflict of interest or potential conflict of interest arising from the other directorship; (b) that the director does not own a controlling interest in the other institution and or is not in managerial or operational control; (c) that the magnitude of the competitive presence of the other institution is insignificant to FMFC; (d) that there is no risk of compromising FMFC confidential financial, loan, or employee information (including member/customer lists/rate pricing information/employee lists) as a result of the other directorship; (e) that the director does not have a financial investment or vested interest in the financial performance of the other institution (excluding per diem, travel and incidental expenses); (f) that the director is not an agricultural borrower of the other institution; (g) that the director does not have non-agricultural based borrowings with the other institution which significantly impact his/her financial risk taking ability or the Association's loan; (h) that issues in the above areas of concern are not of significance when considered cumulatively; (i) that there are no other factors that, in the opinion of the FMFC Board, would influence the directors judgment and participation as a Director of FMFC; then the FMFC Board may waive this requirement at their discretion. The director shall be required to disclose to the Board his or her other director relationship(s), and certify that he/she has met the requirements of this section and provide any (public) information relative to the other institution as requested by the Board.
8. No individual shall be eligible for election or appointment to the Association's Board if, at the time of nomination for election or the consideration for appointment is made, all or any part of any loan with a System institution, for which the person is personally liable, is delinquent for a period of time exceeding 30 days or the loan has been formally restructured.
9. No director shall be eligible to serve on the Board of the Association if all or any part of his/her loan is delinquent for a period of time exceeding 30 days, or the loan has been formally restructured.
10. Director candidates and elected directors are required to maintain their loans in good standing, which for purposes of this policy, means classified Acceptable, or at least OAEM. It is the intent of the board that each director should be held to a high standard regarding credit quality; therefore, when a Director is notified by the CEO that his/her loan has been adversely classified (Substandard, Doubtful, or Loss), the Director must promptly, but no later than 30 days after receipt of notice of the adverse classification, take action to remove such classification immediately.

Fresno Madera Policy ManualAppointed Directors

1. Appointed directors are subject to all eligibility requirements as outlined under Elected Directors with the exception of items 1, 2, 9, and 10.
2. No person shall be eligible or appointed to the Board for an outside director position that is a director, officer, employee, agent, or stockholder of an institution in the Farm Credit System.

Elected and Appointed Directors

1. To retain eligibility, the following additional requirements apply:
 - The unexcused absence of a director for three (3) consecutive regular meetings of the Board and less than 75% of all board meetings on a calendar year basis, shall automatically terminate the director's service and the vacancy shall be filled as provided in Section 430 of the Association bylaws. A majority of the Board of Directors at a regular Board Meeting or at a Special Board Meeting shall determine if the absence of the director, in either case, should be excused and the attendance requirement waived.
 - The office of any elected or appointed director shall automatically become vacant in the event such director; (1) files a petition for relief in voluntary bankruptcy, bankruptcy, or otherwise institutes suit under applicable voluntary Federal or State bankruptcy, insolvency, or receivership laws; or (2) is adjudged a debtor in an involuntary Federal bankruptcy or placed in receivership in a state proceeding; or (3) seeks reorganization under the Bankruptcy Act for personal business interests or that of a corporation in which the director owns the controlling interest; or (4) is party to a foreclosure proceeding (judicial or non-judicial) involving property in which the director has an interest, which is instituted because of the director's default on indebtedness to a Farm Credit System institution; or (5) is convicted of any felony while holding office; or (6) is declared legally incompetent.

D. Director Qualifications

The Board has reviewed the requirements of the FCA Regulations, has reviewed the desirable qualifications and characteristics of financial institution Board members through collective business experience and collective board experience and education, and has determined the qualifications listed below as desirable for members of the Association Board.

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The qualifications are not requirements in their entirety of each board member but reflect collectively the desirable qualifications of the Board. Ultimately, Association stockholders will determine the best director candidates for their representation.

1. Elected Directors. In addition to Association bylaw requirements and eligibility requirements, following are desirable qualifications for elected directors:
 - Significant experience with production agriculture practiced in the Association's geographic territory,
 - Background, education, or experience in the areas of agricultural business, agricultural economics, or management,
 - An understanding of financial and credit matters,
 - Knowledge of political relationships,
 - A working knowledge of Association credit and financial disciplines, competitive environments, and business strategies,
 - A working knowledge of financial disclosure and compliance (audits, financial statements, internal controls), and
 - An understanding of internal controls and procedures for financial reporting and Audit Committee functions (including knowledge in at least one of the following: public and corporate finance, financial reporting and disclosure or accounting procedures.)
2. Appointed Directors. For appointed directors, in addition to Association bylaw requirements and eligibility requirements, appointed directors will possess some or all of the desired director qualifications as outlined in item 1 above.
 - Specific areas may be emphasized based on the needs of the Board related to the position being filled.

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3. Financial Expert. Under FCA Regulations, the Association must have a Board member who is a financial expert.
 - A “financial expert” is defined in FCA Regulations as an individual recognized as having
 - education or experience in accounting,
 - internal accounting controls,
 - or preparing or reviewing financial statements for financial institutions or large corporations consistent with the breadth and complexity of accounting and financial reporting issues that can reasonably be expected to be raised by the Association’s financial statements.
 - For further clarification and determination, FCA’s Financial Expert Determination diagram is attached as Exhibit A.
 - An Association financial expert may be an elected director or an appointed director.
 - All directors who are designated financial experts are to be included as members of the Association audit committee.
 - The Board will review and designate the Financial Expert at the meeting following the Annual Organizational Meeting, or more often if appropriate. The Board will evaluate its members’ qualifications measured against the requirements for a financial expert (as noted above) and will determine all those members whose qualifications meet the requirements. The Board will then designate all such members (at least one) as the Board financial expert(s) under the FCA Regulations and so note the designation in the minutes.
4. Personal Characteristics. Board members should have the following personal characteristics to most effectively perform the responsibilities and roles of a director:
 - Commitment to the Farm Credit System, Association, and Association customers, and dedication of the time needed for a Board position,
 - Ability to apply common sense to resolve problems or issues,
 - Respect for fellow Board members and the ability to find a balance between assertiveness and cohesiveness,
 - Effective communication skills,
 - Good people skills and a team player orientation,
 - Willingness to contribute and speak out in the course of deliberations and then support the final decision of the Board,
 - Integrity,
 - Loyalty,
 - Willingness to delegate to management,
 - Independent and void of actual, apparent, perceived or potential conflicts of interest,
 - Commitment to fulfillment of fiduciary obligations.

MANUAL

CHAPTER

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Board

Board Composition, Qualifications, and Self-Evaluation Policy

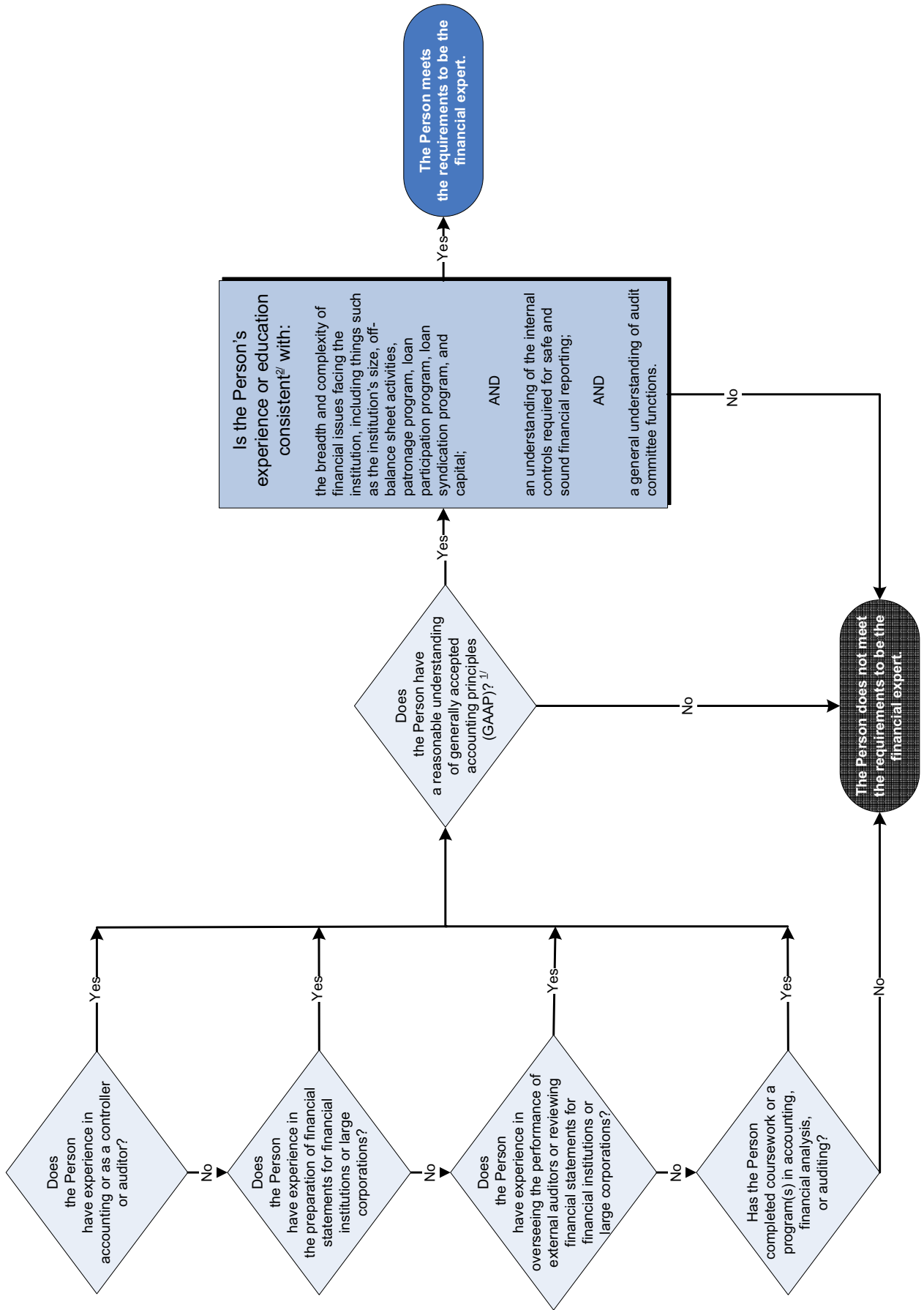
VI. REPORTING REQUIREMENTS

This policy is to be provided to the Nominating Committee for the nomination process and included in the New Director report packages. No other periodic reporting requirements are established for this policy. The Board will review the policy annually.

VII. POLICY DISCLOSURE

This Policy will be posted on the Association's website and will also be available in print to any stockholder requesting it.

Financial Expert Determination—§ 611.210(a)(2)



Source: Farm Credit Administration May 2006

^{1/} § 621.3 requires that an institution prepare its financial statements and reports in accordance with GAAP.
^{2/} Possessing or having the capacity to acquire specific financial expertise relevant to the institution.